

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Betsie Lake Utilities Authority	County Benzie
Audit Date 8/26/05	Opinion Date 6/30/05	Date Accountant Report Submitted to State: 10/20/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Wilson, Ward CPA Firm			
Street Address PO Box 205	City Interlochen	State MI	ZIP 49643
Accountant Signature <i>Wilson, Ward CPA Firm</i>		Date 10/20/05	

BETSIE LAKE UTILITIES AUTHORITY

FRANKFORT, MICHIGAN

For Year Ended
June 30, 2005

Audit Report

Wilson, Ward CPA Firm
PO Box 205
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BETSIE LAKE UTILITIES AUTHORITY
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General Purpose Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Betsie Lake Utilities Authority
Frankfort, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Betsie Lake Utilities Authority as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Betsie Lake Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Betsie Lake Utilities Authority, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2005, on our consideration of the Betsie Lake Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Betsie Lake Utilities Authority's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Wilson, Ward CPA Firm

Interlochen, MI
August 26, 2005

Betsie Lake Utilities Authority

Financial Management Discussion and Analysis

Annual Report.

June 30, 2005

This annual report consists of the financial statement concerning the financial activities performed by the Betsie Lake Utilities Authority for the fiscal year of July 1, 2004 through June 30, 2005. The following statements reflect the current financial condition of the Betsie Lake Utilities Authority.

History:

The Authority has completed the addition of a new Oxidation Ditch and the Septage Receiving Station this project was started in the previous fiscal year of 2003/ 2004. The Authority also purchased the Woodland Oil Property next to the existing plant property for future expansion of the plant. The cost of the Woodland Property and the remaining expense of the Ditch project was \$ 273,896.88.

The Authority has two major clients that comprise the basis for the Authority consisting of the City of Frankfort and the Village of Elberta. These two entities formed the Betsie Lake Utilities Authority to build and operate a Wastewater Treatment Facility to treat the wastewater from the two communities. The Board for the Authority consists of two members from each community and one appointed member at large from outside of the two communities. The Authority treats the wastewater from the two communities and uses the excess capacity of the plant to treat wastewater from other outside sources which has enabled the Authority to keep the operating rates to the two communities at a constant level for a number of years. This source of revenue over time has also enabled the Authority to add additional equipment and to update existing equipment.

General Financial Information:

The Authority has five major Fund Accounts.

1. Operating Fund / General checking is working account used to hold operating income and to pay for required services and cost relating to the operation of the plant.

2. Equipment Replacement Fund: This account is used to reserve operating income for the replacement of existing plant equipment and to additional equipment as needed.

3. Capital Improvement Fund: This account is used to reserve operating income for the major improvements needed for the continued operation of the plant and for future improvements needed to keep up with growth of the two communities.

4. Debt Retirement Fund: This account is used to hold Debt Retirement income for the retirement of the Bond on the plant and property.

5. Debt Retirement Reserve Fund: This account is used to hold the required Bond Reserve by the Bonding Agent. This account is to be used to pay Bond interest and principal payments, if not able to payout of the Debt Retirement Fund.

Financial Position:

The Authority in this Fiscal year 2004 / 2005 has finished the Oxidation Ditch and other capital improvements at cost of \$ 274,000.00 this was the final cost of payments on the project started in last fiscal year. The Authority ended this fiscal year with Operating money available for the operation of the plant total of \$ 436,000.00, including the Capital and Equipment Replacement Funds.

The Debt Retirement principal and interest payments were made for this fiscal year. The Debt Retirement Fund ended the fiscal year with a Balance of \$284,000.00.

The Debt Retirement Reserve Fund ended the fiscal year with a Balance of \$160,000.00.

The Authority maintained the operation and paid the required payment on the Bond. The financial position of the Authority looks good with completion of the Septage station and the new oxidation ditch. This project has added another source of income for the operation of plant. This addition will be of benefit to the communities for years in to the future.

BETSIE LAKE UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
As of June 30, 2005

	June 30, 2005 Business Type Activities	June 30, 2004 Business Type Activities
Assets		
Current Assets		
Cash & Investments	\$288,960	\$540,250
Accounts Receivable	57,883	57,865
Acc Interest Receivable	0	4,107
Inventory	27,960	27,960
Prepaid Expenses	6,531	4,686
Total Current Assets	<u>381,334</u>	<u>634,868</u>
Restricted Deposits & Funded Reserved	403,396	855,661
Work In Process	0	19,226
Property, Plant, and Equipment - Net	<u>2,586,780</u>	<u>1,553,082</u>
Total Assets	<u><u>3,371,510</u></u>	<u><u>3,062,837</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	14,471	2,270
Accrued Bond Interest Payable	<u>30,886</u>	<u>16,109</u>
Total Current Liabilities	45,357	18,379
Long Term Debt		
Bonds Payable	<u>1,815,000</u>	<u>1,831,000</u>
Total Liabilities	1,860,357	1,849,379
Fund Equity		
Contributed Capital	0	26,242
Retained Earnings		
Fund Balances:		
Reserved for Bond and Interest	93,867	226,820
Reserved for Bond Reserve	160,000	160,000
Reserved for Equipment Replacement	106,000	106,000
Reserved for Capital Improvement	0	395,000
Unreserved	<u>1,151,286</u>	<u>299,396</u>
Total Fund Equity	<u>1,511,153</u>	<u>1,213,458</u>
Total Liabilities and Fund Balance	<u><u>\$3,371,510</u></u>	<u><u>\$3,062,837</u></u>

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF ACTIVITIES
As of June 30, 2005

Functions/Programs	Expenses	Charges for Services	Program Revenues		Business-type Activities
			Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Business Type Activities					
Wastewater Treatment	\$602,592	\$548,557	\$0	\$0	(\$54,035)
Total Primary Government					(54,035)
General revenues:					
Taxes					
Property Taxes-general					
Property Taxes-debt service					
State-Shared Revenues					
Unrestricted Investment Earnings					
Franchise taxes					
Miscellaneous Debt Service					154,192
Transfers					0
Total General Revenue-Special Items and Transfers					
Changes in Net Assets					100,157
Net Assets - Beginning					1,410,996
Net Assets - Ending					<u>\$1,511,153</u>

BETSIE LAKE UTILITIES AUTHORITY
GOVERNMENT WIDE COMPARATIVE STATEMENT OF FINANCIAL POSITION
As of June 30, 2005

	Debt Service	Enterprise Fund	June 30, 2005 Total	June 30, 2004 Total
Assets				
Current Assets				
Cash & Investments	\$86,967	\$201,993	\$288,960	\$540,250
Accounts Receivable		57,883	57,883	57,865
Acc Interest Receivable		0	0	4,107
Inventory		27,960	27,960	27,960
Prepaid Expenses	390	6,141	6,531	4,686
Total Current Assets	87,357	293,977	381,334	634,868
Restricted Deposits & Funded Reserved	197,396	206,000	403,396	855,661
Work In Process		0	0	19,226
Property, Plant, and Equipment - Net		2,586,780	2,586,780	1,553,082
Total Assets	284,753	3,086,757	3,371,510	3,062,837
Liabilities and Fund Balance				
Liabilities				
Accounts Payable		14,471	14,471	2,270
Accrued Bond Interest Payable	30,886		30,886	16,109
Total Current Liabilities	30,886	14,471	45,357	18,379
Long Term Debt				
Bonds Payable		1,815,000	1,815,000	1,831,000
Total Liabilities	30,886	1,829,471	1,860,357	1,849,379
Fund Equity				
Contributed Capital		0	0	26,242
Retained Earnings				
Fund Balances:				
Reserved for Bond and Interest	93,867		93,867	226,820
Reserved for Bond Reserve	160,000		160,000	160,000
Reserved for Equipment Replacement		106,000	106,000	106,000
Reserved for Capital Improvement			0	395,000
Unreserved		1,151,286	1,151,286	299,396
Total Fund Equity	253,867	1,257,286	1,511,153	1,213,458
Total Liabilities and Fund Balance	\$284,753	\$3,086,757	\$3,371,510	\$3,062,837

BETSIE LAKE UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2005 and June 30, 2004

	June 30, 2005		June 30, 2004	
	Debt Service Funds	Enterprise Fund	Total	Total
Revenues				
Charges for Services				
City of Frankfort - (Note L)		\$132,553	\$132,553	\$155,018
Village of Elberta - (Note L)		77,758	77,758	72,872
Other Customers		284,604	284,604	120,556
Debt Service Charges				
City of Frankfort		105,360	105,360	96,288
Village of Elberta		48,832	48,832	41,856
Other Revenues	3,684	49,958	53,642	63,575
Total Revenues	3,684	699,065	702,749	550,165
Rebates			0	0
Total Revenues (Net of Rebate)	3,684	699,065	702,749	550,165
Expenditures				
Administrative and General Expenses				
Administrative		27,903	27,903	14,531
Insurance		3,466	3,466	8,346
Depreciation		116,996	116,996	85,888
Total Administrative and General Expenses		148,365	148,365	108,765
Operating Expenses				
Salaries, Taxes, and Fringe		172,571	172,571	122,218
Utilities		55,084	55,084	36,305
Misc		1,273	1,273	2,430
Chemicals Processing		35,609	35,609	16,516
Lab Expenses		44,534	44,534	7,275
Contract Services		6,660	6,660	28,501
Other Finance Charge		0	0	0
Bond Interest Expense	93,484		93,484	90,100
Equipment Replacement		9,811	9,811	3,958
Maintenance		35,201	35,201	23,981
Total Operating Expenditures	93,484	360,743	454,227	331,284
Excess Revenue (Expenditures)	(89,800)	189,957	100,157	110,116
Other Financing Sources (Uses)				
Transfers In	0		0	91,168
Transfers Out		0	0	91,168
Total Other Financing Sources	0	0	0	0
Excess Revenue & Other Financing Sources (Expenditures)	(89,800)	189,957	100,157	110,116
Beginning Fund Net Assets	343,667	1,067,329	1,410,996	1,103,342
Income Reserve		0	0	0
Ending Fund Net Assets	\$253,867	\$1,257,286	\$1,511,153	\$1,213,458

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF CASH FLOW
Enterprise Fund
For The Year Ended June 30, 2005

Cash Flow from Operating Activities

Operating Income	\$189,957
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Adjustments to Reconcile Operating Income to
Net Cash Provided by Operating Activities

Depreciation Expense	116,996
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Changes in Assets and Liabilities

(Increase) Decrease in Accounts Receivable	61,153
(Increase) Decrease in Prepaid Expenses	(649)
(Increase) Decrease in Inventory	0
(Increase) Decrease in Interest Rec	0
Increase (Decrease) in Accounts Payable	(3,553)
Increase in Funded Reserve	(100,000)
Transfer to Other Funds	0
	0

Net Cash Provided by Operating Activities	263,904
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Cash Flow from Investing Activities

Increase in Bonds Payable	24,000
Decrease in WIP	880,412
Capital Acquisition	(1,223,309)

Net Increase (Decrease) in Cash	(54,993)
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Cash Beginning of Year	256,986
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Cash End of Year	\$201,993
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BETSIE LAKE UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Betsie Lake Utilities Authority is organized to construct, maintain and manage a sewage disposal system and water supply system for the City of Frankfort and the Village of Elberta. As required by Governmental Accounting Standards, all other entities were reviewed to insure which should be included in this report. GASB Statement #1 requires that if certain oversight responsibility occurs, that subordinate entity activity should be noted in this report. Oversight responsibility is evidenced by:

- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Budgetary authority
- Responsibility to fund deficits or receive surplus funds
- Fiscal management
- Providing significant subsidies

Based on the above criteria, no other organization should be included in this report.

Basis of Presentation

The financial activities of the Authority are recorded as an Enterprise (Proprietary) Fund. This fund reports operations that provide services which are financed primarily by user charges and where periodic measurement of net income is appropriate for capital maintenance and management control. This year, the Authority came under the requirements of GASB 34. As such, two additional schedules have been incorporated and the books converted to full accrual.

Basis of Accounting

The financial statements reflect the full accrual basis of accounting with revenue recorded when earned and expenditures recorded as the liability is incurred.

Inventories

It is the Authority's policy to take a physical inventory of major items every year. A physical inventory was not taken this year with adjustments to value from the physical inventory based on a first in, first out basis at cost because there were no changes to major items in inventory.

Depreciation

The depreciation expense for the year was \$116,996 and is calculated on a straight line basis based on the life of the assets. Lives vary from 5 to 40 years. Depreciation is commenced in the year following acquisition.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority by which Treasurers may invest funds and includes the following:

- a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Bankers' acceptances of United States banks.
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g) Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i) The purchase of securities on a when-issued or delayed delivery basis.
 - ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967.
- i) Investment pools organized under the the surplus funds investment pool act, 1982 PA 367.
- j) The investment pools organized under the local government investment pool act, 1985 PA 121. In bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, in which the principal and interest is fully guaranteed by the United States.

Deposits

At the year end investments and deposits were as follows:

	<u>Balance Per Bank</u>	<u>Carrying Value</u>
CASH		
Insured	\$ 100,000	\$ 100,000
Uninsured	15,467	12,755
Not rated as to risk:		
Money Market	319,595	319,595
Certificates of Deposit	260,000	260,000
OTHER-Petty Cash	<u> </u>	<u>\$ 100</u>
Total Deposits	\$ 695,162	\$ 692,450

NOTE C - ACCOUNTS RECEIVABLE

The accounts receivable represents operating revenues due to the Authority from third parties and the participating agencies at year end.

NOTE D - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and depreciated over the useful lives of the assets. Details concerning values and depreciation rates and amounts are found on the Fixed Assets Schedule.

NOTE E - LONG TERM DEBT

On March 1, 1989, the Betsie Lake Utilities Authority was authorized to borrow \$2,310,000 in revenue bonds from the Farmers Home Administration for construction of the sewer system. The debt borrowed against this allowance was \$2,157,000. On February 1, 1999, Betsie Lake Utilities Authority was authorized to refund these revenue bonds with an issuance of \$2,040,000 in revenue refunding bonds, Series 1999, of which \$95,000 are Serial Bonds with an interest rate of 5% through March 1, 2000; 5.15% from 2000 through 2023; 5.20% 2024 through 2028; and with \$1,090,000 of 5% term bonds due March 1, 2019. Costs of funding were capitalized as a part of the sewerage system.

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>BALANCE</u>
2001-2018		1,611,954	1,914,983
2019	1,055,000	100,750	925,000
2020-2023	390,000	161,710	535,000
2004-2028	<u>535,000</u>	<u>78,520</u>	0.00
Grand Total	\$2,015,000	\$ 2,054,463	

This results in a debt service schedule as follows:

2005-2006	45,000	92,405
2006-2007	50,000	90,087
2007-2008	50,000	87,769
2008-2009	50,000	85,155
2009-2010	55,000	82,655
Next five years		
2010-2015	320,000	368,775
Next five years		
2015-2020	410,000	232,370
Next five years		
2020-2024	525,000	164,795
Thereafter	310,000	28,600

NOTE F - CONTRIBUTED CAPITAL

Contributed capital is not longer isolated from the unreserved fund balance.

NOTE G - RESERVES AND BOND DEBT REQUIREMENTS

The Authority has established a Bond and Interest Reserve Fund. The basic funding of these reserves is as follows:

Debt Payment

Required by refinanced debt	\$142,500
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These reserves are used to pay the bond principal and interest. The balances in these accounts are displayed on the Schedule of Bond Debt Reserves with the excess reserve of \$160,000.

NOTE H - REVENUE FLOW OF FUNDS

The revenues from the system are deposited in the Sewage Disposal Receiving Fund and then transferred as follows:

Operation and Maintenance Fund

Funds are transferred each quarter of the fiscal year into this fund to pay for the expenses of administration, operations and maintenance and accumulated reserve for replacement as needed.

Bond and Interest Redemption Fund

The amount transferred into this fund is that amount required to pay the principal and interest payments with interest paid semi-annually and principal paid annually. Within this fund, a Bond Reserve Account shall contain a balance in this fund of \$142,500. The balance as of June 30, 2005 is \$160,000.

Repair and Reconstruction Fund

After the transfers above, funds can be transferred into this fund by the Authority.

Improvement Fund

After transferring funds above, the Authority may transfer funds into this account for the purpose of making improvements to the system.

NOTE I - INVESTMENT RESTRICTIONS

Money in the bond reserve funds and accounts shall be invested in Government obligations or certificates of deposit with a bank insured by the FDIC. Money invested for the Bond and Redemption Fund shall be limited to maturity dates prior to the next payment due date. Money invested for the Bond Reserve Account shall be limited to a maximum maturity date of five years from the date of investment. All interest received from these deposits shall be credited to each respective fund.

NOTE J - RELATED PARTIES

The Betsie Lake Utilities Authority was created by the City of Frankfort and the Village of Elberta to provide sewer services for the two municipalities. The two units bill and collect charges to the public for private use of the system. The Authority in turn bills the municipalities for use and debt service fees. The two municipalities are ultimately responsible for the operation and debt of the Authority.

NOTE K - USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE L - CONTINGENT LIABILITIES

Because of the potential for rebating an excessive amount to the participants, a decision was made to wait until after the audit is complete to make such a rebate and to base that rebate on audited figures. As a result, the net service revenue from the City and Village is higher at this time.

NOTE M - EXPENDITURES IN EXCESS OF APPROPRIATIONS

Public Act 621 of 1978, requires that a municipality shall not incur expenditures in excess of the monies appropriated. The following activities expended material amounts greater than appropriations:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Administration	11,300	27,903	(16,603)
Chemical Processing	16,000	35,609	(19,609)
Utilities	42,000	55,084	(13,084)
Salaries	112,000	172,571	(60,571)
Contract Services	36,000	44,534	(8,534)
Maintenance	26,000	35,201	(9,201)

NOTE N - RISK MANAGEMENT

All liabilities and property are insured through the Michigan Municipal Liability and Property Pool.

NOTE O - COMPENSATED ABSENCES

There are no compensated absences.

NOTE P - PENSION BENEFITS

The only pension available is a Plan to which the Board contributes a fixed amount to each SEP each year. This amount is determined annually at the discretion of the Board and is not a defined benefit or defined contribution plan.

NOTE Q - POST RETIREMENT HEALTH CARE BENEFITS

The Board passed a resolution to pay for post retirement health care insurance for current employees. This benefit will be paid in concurrence with normal health care benefits which is a monthly expenditure. This years health care benefit expenditure was \$45,268.

Required Supplemental Statements

WILSON, WARD CPA FIRM

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To the Betsie Lake Utilities Authority
Frankfort, MI

We have audited the combined financial statements of the Betsie Lake Utilities Authority for the year ended June 30, 2005. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying schedules, as listed in the table of contents, are presented for purposes of the additional analysis and are not a required part of the combined financials statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Wilson Ward CPA Firm

August 26, 2005
Interlochen, MI

BETSIE LAKE UTILITIES AUTHORITY
BUDGETED COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
All Fund Types
For the Year Ended June 30, 2005

	Debt Service			Enterprise		
Revenues	Actual	Budget	Variance	Actual	Budget	Variance
Charges for Services						
City of Frankfort - (Note L)				\$132,553	\$160,000	(\$27,447)
Village of Elberta - (Note L)				77,758	75,000	2,758
Other Customers				284,604	120,000	164,604
Debt Service Charges						
City of Frankfort				105,360	96,288	9,072
Village of Elberta				48,832	24,602	24,230
Other Revenues	3,684	4,000	316	49,958	45,661	4,297
Total Revenues	3,684	4,000	316	699,065	521,551	177,514
Rebates				0	0	
Revenue Net of Rebates	3,684	4,000	316	699,065	521,551	177,514
Expenditures						
Administrative and General Expenses						
Administrative				27,903	17,000	(10,903)
Insurance				3,466	5,000	1,534
Depreciation				116,996	113,737	(3,259)
Total Administrative and General Expenses				148,365	135,737	(12,628)
Operating Expenses						
Salaries, Taxes, and Fringe				172,571	163,000	(9,571)
Utilities				55,084	53,000	(2,084)
Misc				1,273	13,650	12,377
Chemicals Processing				35,609	38,000	2,391
Lab Expenses				44,534	36,000	(8,534)
Contract Services				6,660	8,000	1,340
Other Finance Charge						0
Bond Interest Expense	93,484	91,655	(1,829)			
Equipment Replacement				9,811	12,000	
Maintenance				35,201	35,201	0
Total Operating Expenditures	93,484	91,655	(1,829)	360,743	358,851	(4,081)
Excess Revenue (Expenditures)	(89,800)	(87,655)	(2,145)	189,957	26,963	162,994
Other Financing Sources (Uses)						
Transfers In	0	0	0	0		
Transfers Out				0	0	0
Total Other Financing Sources	0	0	0	0	0	0
Excess Revenue & Other Financing Sources (Expenditures)	(89,800)	(87,655)	(2,145)	189,957	26,963	162,994
Beginning Fund Balance/Retained Earnings	343,667			1,067,329		
Unreserved funds reserved				0		
Ending Fund Balance/Retained Earnings	<u>\$253,867</u>			<u>\$1,257,286</u>		

Supplemental Statements

Operating and Maintenance Fund

BETSIE LAKES UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF FINANCIAL POSITION

Operating and Maintenance Fund
(Enterprise Fund)
As of June 30, 2004 & 2005

	June 30, 2004	June 30, 2005
Assets		
Current Assets		
Cash and Investments	\$256,986	\$201,993
Accounts Receivable	119,036	57,883
Acc Interest Rec	0	0
Inventory	27,960	27,960
Prepaid Expenses	5,492	6,141
Total Current Assets	<u>409,474</u>	<u>293,977</u>
Restricted Deposits & Funded Reserved	106,000	206,000
Work In Process	880,412	0
Property, Plant, and Equipment	2,361,783	3,585,092
Accumulated Depreciation	<u>(881,316)</u>	<u>(998,312)</u>
Net Property Plant and Equipment	<u>2,360,879</u>	<u>2,586,780</u>
Total Assets	<u><u>2,876,353</u></u>	<u><u>3,086,757</u></u>
Liabilities and Fund Balance		
Liabilities		
Accounts Payable	18,024	14,471
Due to Debt Service Fund	0	0
Total Current Liabilities	<u>18,024</u>	<u>14,471</u>
Long Term Debt		
Bonds Payable	<u>1,791,000</u>	<u>1,815,000</u>
Total Liabilities	1,809,024	1,829,471
Fund Equity		
Retained Earnings		
Reserved for Equipment Replacement	106,000	106,000
Reserved for Capital Improvement	0	0
Unreserved	<u>961,329</u>	<u>1,151,286</u>
Total Fund Equity	<u>1,067,329</u>	<u>1,257,286</u>
Total Liabilities and Fund Balance	<u><u>\$2,876,353</u></u>	<u><u>\$3,086,757</u></u>

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET VS ACTUAL

Operating and Maintenance Fund
(Enterprise Fund)

For the Year Ended June 30, 2004 and June 30, 2005

	2004			2005	
Revenues	Original Budget	Actual	Budget	Actual	Variance
Charges for Services:					
City of Frankfort - (Note L)	\$155,000	\$165,510	\$160,000	\$132,553	-\$27,447
Village of Elberta - (Note L)	73,000	64,134	75,000	77,758	2,758
Other Customers	57,600	287,133	120,000	284,604	164,604
Debt Service Charges:					0
City of Frankfort	96,288	64,192	96,288	105,360	9,072
Village of Elberta	24,602	41,856	24,602	48,832	24,230
Other Revenues	45,661	94,678	45,661	49,958	4,297
Total Revenues	452,151	717,503	521,551	699,065	177,514
Less Rebates		0	0	0	0
Net Revenue	676,302	717,503	521,551	699,065	177,514
Expenditures					
Administrative and General Expenses					
Administrative	16,000	20,952	11,300	27,903	-16,603
Insurance	15,000	5,673	4,700	3,466	1,234
Depreciation	85,888	72,615	116,996	116,996	0
Total Administrative and General Expenses	116,888	99,240	132,996	148,365	-15,369
Operating Expenses					
Salaries, Taxes, and Fringe	100,000	143,799	112,000	172,571	-60,571
Utilities	42,000	49,795	42,000	55,084	-13,084
Misc		2,430	0	1,273	-1,273
Chemicals Processing	16,000	23,502	16,000	35,609	-19,609
Contract Services	36,000	30,650	36,000	44,534	-8,534
Lab Expenses	8,000	3,639	8,000	6,660	1,340
Equipment Replacement	12,000	34,467	12,000	9,811	2,189
Maintenance	26,000	25,285	26,000	35,201	-9,201
Total Operating Expenditures	240,000	313,567	252,000	360,743	-108,743
Total Expense	356,888	412,807	384,996	509,108	-124,112
Excess Revenue Over (Under) Expenses	319,414	304,696	136,555	189,957	53,402
Transfers (In) out		64,005	58,517	0	58,517
Excess Revenue & Other Sources Over (Under) Expenses & Other Uses		240,691	78,038	189,957	
Fund Balance/Retained Earnings, July 1, 2004		826,638		1,067,329	
Reserved funds moved to unreserved		0		0	
Fund Balance/Retained Earnings, June 30, 2005		\$1,067,329		\$1,257,286	

**BETSIE LAKE UTILITIES AUTHORITY
FIXED ASSET SCHEDULE**

For The Years Ended June 30, 2004 and June 30, 2005

	June 30, 2004 Balance	Additions	Deletions	June 30, 2005 Balance
Land	\$26,142			\$26,142
Treatment Plant	2,065,794			2,065,794
Storage Building	15,824			15,824
Landscaping	10,080			10,080
Parking & Sidewalk	1,349			1,349
Vehicles	12,685			12,685
Lab Equipment	31,114			31,114
Operating Equipment	20,801			20,801
Operating Equipment	49,160			49,160
Operating Equipment	112,486			112,486
Operating Equipment	1,277			1,277
Snow Blower	2,734			2,734
Misc Eqpt	2,262		0	2,262
Tractor	7,400			7,400
Drive	2,675			2,675
Treatment Plant		880,412		880,412
Plant Equipment		182,705		182,705
Office Equipment		3,135		3,135
Improvements Capitalized		69,000		69,000
Woodlands Property		88,057		88,057
	<hr/> 2,361,783	<hr/> 1,223,309	<hr/> 0	<hr/> 3,585,092

	Asset Life	Provision for Depreciation June 30, 2004 Balance	Adj for PP	Depreciation	Provision for Depreciation June 30, 2005 Balance	Net Book Value
Land	0	0		0	0	26,142
Treatment Plant	65	634,558		68,860	703,418	1,362,376
Storage Building	40	5,064		396	5,460	10,364
Landscaping	4	9,144		936	10,080	0
Parking & Sidewalk	0	0		0	0	0
Vehicles	5	12,685		0	12,685	0
Lab Equipment	10	31,114		0	31,114	0
Operating Equipment	5	20,801		0	20,801	0
Operating Equipment	10	49,160		0	49,160	0
Operating Equipment	15	112,486		0	112,486	0
Operating Equipment	5	1,277		0	1,277	0
Snow Blower	5	2,734		0	2,734	0
Misc Eqpt	10	1,130		226	1,356	906
Tractor	7	2,114		1,057	3,171	4,229
Drive	25	214		107	321	2,354
Treatment Plant	30	0		29,347	29,347	851,065
Plant Equipment	15	0		12,180	12,180	170,525
Office Equipment	5	0		627	627	2,508
Improvements Capitalize	65	0		1,062	1,062	67,938
Woodlands Property	0	0		0	0	88,057
		<hr/> \$882,481	<hr/> \$0	<hr/> \$114,798	<hr/> \$997,279	<hr/> \$2,586,464

Debt Service Funds

BETSIE LAKE UTILITIES AUTHORITY
COMBINING STATEMENT OF FINANCIAL POSITION
As of June 30, 2005

	Bond & Interest Redemption Fund	Bond Reserve Fund	Total
Assets			
Cash in Bank	\$86,967	\$0	\$86,967
Restricted Funds	37,396	160,000	197,396
Accrued Interest Rec	390		390
Total Assets	<u>124,753</u>	<u>160,000</u>	<u>284,753</u>
Liabilities and Fund Balance			
Accrued Interest Payable	<u>30,886</u>	0	<u>30,886</u>
Total Liabilities	30,886		30,886
Fund Balance	<u>93,867</u>	<u>160,000</u>	<u>253,867</u>
Total Liabilities and Fund Balance	<u>\$124,753</u>	<u>\$160,000</u>	<u>\$284,753</u>

The footnotes are an integral part of these Financial Statements.

BETSIE LAKE UTILITIES AUTHORITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

Debt Service Funds
For the Year Ended June 30, 2005

	Bond & Interest Redemption Fund	Bond Reserve Fund	Total
Revenues			
Revenue	\$3,684	\$0	\$3,684
Expenditures			
Interest on Bonds	93,484	0	93,484
Total Expenditures	93,484	0	93,484
Excess Revenue (Expenditures)	(89,800)	0	(89,800)
Other Financing Sources/Applications			
Transfer In (out)	0	0	0
Excess Revenue & Other Financing Sources (Expenditures)	(89,800)	0	(89,800)
Fund Balance, July 1, 2004	183,667	160,000	343,667
Fund Balance, June 30, 2005	\$93,867	\$160,000	\$253,867

The footnotes are an integral part of these Financial Statements.

**BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET VS ACTUAL**

Bond Interest and Redemption Fund
For the Year Ended June 30, 2005

	Budget	Actual	Variance
Revenues			
Revenue	\$4,000	\$3,684	(\$316)
Expenditures			
Misc	0	0	
Interest on Bonds	91,655	93,484	(1,829)
Total Expenditures	<u>91,655</u>	<u>93,484</u>	<u>(1,829)</u>
Excess Revenue (Expenditures)	(87,655)	(89,800)	1,513
Other Financing Sources/Applications:			
Transfer Out	<u>0</u>	<u>0</u>	<u>0</u>
Excess Revenue & Other Financing Sources (Expenditures)	(87,655)	(89,800)	
Fund Balance, July 1, 2004		183,667	
Fund Balance, June 30, 2005		<u><u>\$93,867</u></u>	

The footnotes are an integral part of these Financial Statements.

BETSIE LAKE UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET VS ACTUAL
Bond Reserve Fund
For the Year Ended June 30, 2005

	Budget	Actual	Variance
Revenues			
Revenue	\$0	\$0	\$0
Expenditures			
Misc	0	0	
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>
Excess Revenue (Expenditures)	<u>0</u>	<u>0</u>	<u>0</u>
Other Financing Sources/Applications:			
Transfer Out	<u>0</u>	<u>0</u>	<u>0</u>
Excess Revenue & Other Financing Sources (Expenditures)	0	0	
Fund Balance, July 1, 2004		160,000	
Fund Balance, June 30, 2005		<u>\$160,000</u>	

The footnotes are an integral part of these Financial Statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Betsie Lake Utilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters that we reported to management of Betsie Lake Utilities Authority in a separate letter dated August 26, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Wael CPA Firm

Interlochen, MI
August 26, 2005

Wilson, Ward CPA Firm

3015 M-137

P.O. Box 205

Interlochen MI 49643

David E. Wilson, CPA
Robert K. Ward, CPA

(231) 276-7668
Fax: (231) 276-7687

August 26, 2005

Mr. Ernest Elliott, Superintendent
Betsie Lake Utilities Authority
Frankfort, Michigan

Sir:

The cooperative attitude was greatly appreciated. This attitude is reflected in the constant desire to do a better and more complete job and in providing enhanced services to the community.

The primary purpose of this letter is to prepare, for management, information which delineates those items encountered during the course of the audit which were either not related to the financial, internal control and compliance reports or were not material enough to comment on relative to them. However, these items might be significant when viewed from a management perspective or in the longer term. This letter is intended only for the use of management and any other parties not informed of these matters might misconstrue their meanings.

Our Responsibility under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with general accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Betsie Lake Utilities Authority. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Betsie Lake Utilities Authority are listed in Note A. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into the Betsie Lake Utilities Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Management Judgements and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Significant Audit Adjustments

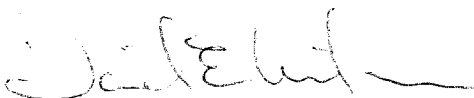
For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Betsie Lake Utilities Authority that could potentially cause future financial statements to be materially misstated, even though we have concluded such adjustments are not material to the current financial statements. Our audit adjustments, individually and in the aggregate, have a significant effect on the financial reporting process.

COMMENT: The authority is in the initial stages of implementation of their accounting system. This will hopefully improve the level of accounting and make better reports available to the Board

It is always a pleasure to work with you and the Board. Thank you for your time and effort.

It is important to remember that this report is for information only and provided to management with the sole intent that it can be evaluated with the potential to improve management practices and insure proper compliance with the bond covenants.

Sincerely,

A handwritten signature in dark ink, appearing to read "David E. Wilson", with a long horizontal flourish extending to the right.

David E Wilson